

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

Verizon North Inc. (f/k/a/ GTE North	)	
Incorporated) and Verizon South Inc.	)	
(formerly known as GTE South Incorporated)	)	
	)	Docket No.
Petition seeking approval of cost studies	)	
for unbundled network elements, avoided	)	
costs and intrastate switched access services.	)	

**TESTIMONY OF**  
**TERRY R. DYE**

**On Behalf of**

**VERIZON NORTH INC.**  
**VERIZON SOUTH INC.**  
**(Formerly GTE North Incorporated and GTE South Incorporated)**

**DECEMBER 20, 2000**

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**I. INTRODUCTION AND PURPOSE**

**Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

A. My name is Terry R. Dye, and I am currently employed as Manager – Pricing Policy at Verizon Services Group. My business address is 600 Hidden Ridge Drive, Irving, Texas.

**Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

A. I received a Bachelor of Science Degree in Economics in 1977 and a Master of Arts Degree in Economics in 1979, both from the University of Missouri. Upon graduation, I accepted a position with the Missouri Department of Natural Resources as a Planner until accepting employment as an Economist with the Missouri Public Service Commission in 1981. Thereupon, I was assigned to the Rates and Tariffs Section of the Communications Department. I was responsible for the review and preparation of testimony, Attachments and cost support data submitted in support of tariff filings and making recommendations based upon that review.

In January 1984, I accepted a position as a Rate Manager in the Economics and Rates Department of the Illinois Commerce Commission. In that capacity, I had general rate design responsibility over telephone utility matters in the Rate Design Section.

I joined Contel Telephone Operations in January 1985 as a Senior Financial Analyst in the Pricing Group of the Revenue Department. I was promoted to Pricing Manager in December 1987.

1 With the merger of Contel and GTE in 1991, I accepted the position of Rate Design  
2 Manager with GTE Telephone Operations. From January 1993 to January 1994, I held  
3 the position of New Services Manager in the Pricing Department. In 1994, I was  
4 assigned the position of Manager – Pricing Policy. Currently, I am responsible for  
5 assisting the Company in its development of pricing policies and supporting those  
6 policies in the various regulatory areas.

7  
8 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**  
9 **PROCEEDING?**

10 A. I am presenting testimony on behalf of Verizon North Inc. and Verizon South Inc.  
11 (collectively, Verizon or the Company), formerly known as GTE North Incorporated and  
12 GTE South Incorporated. The companies recently changed their names after the closure  
13 of the merger between the parent companies of, GTE and Bell Atlantic, the combination  
14 of which has been renamed Verizon Communications Inc.

15  
16 **Q. IN YOUR TESTIMONY HOW DO YOU USE THE TERMS "VERIZON" AND**  
17 **"GTE"?**

18 A. My fellow witnesses and I use "Verizon" or “ the Company” to refer to Verizon North  
19 Inc. and Verizon South Inc., collectively the companies that are parties to this proceeding  
20 and on whose behalf we are testifying. I use "GTE" to refer to the former GTE  
21 companies, which are now part of the Verizon Communications companies along with  
22 the former Bell Atlantic companies. This will make clear that we are talking about cost

1 studies and inputs that have been developed by and for the GTE telephone operating  
2 companies and reflect those companies' networks, operations, practices and procedures.

3  
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
5 **COMMISSIONS?**

6 A. Yes. I have testified on numerous occasions in the area of telecommunications  
7 ratemaking and cost methodologies representing the staff of the Public Service  
8 Commissions in both Missouri and Illinois. While with Contel, I presented testimony  
9 before in the states of South Carolina, West Virginia, and New York. I have also testified  
10 on behalf of GTE Hawaiian Telephone Company and GTE Northwest Incorporated.  
11 Over the past few years I have presented testimony on behalf of GTE in proceedings  
12 related to the Telecommunications Act of 1996 in the states of Pennsylvania, Ohio,  
13 Illinois, Indiana, Wisconsin, Michigan, Kentucky, Arkansas, New Mexico, Alabama,  
14 Washington, and South Carolina.

15  
16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. My testimony identifies and addresses the pricing policy issues surrounding Verizon's  
18 proposed monthly recurring charges ("MRCs") and proposed ordering and service  
19 connection non-recurring charges ("NRCs") for various unbundled network elements  
20 ("UNEs") and associated NRC activities. In addition, I present and discuss Verizon's  
21 switched access cost submission. Appended to my testimony are the following Direct  
22 attachments:

- 1 (a) Direct Attachment TD-1 provides support for the development of the “cost mark-  
2 up” factor Verizon used to develop rates that would facilitate recovery of the  
3 Company’s forward-looking common costs,  
4 (b) Direct Attachment TD-2 lists Verizon's proposed MRCs for the various items that  
5 are the subject of this testimony,  
6 (c) Direct Attachment TD-3 lists Verizon’s proposed NRCs,  
7 (d) Direct Attachment TD-4 provides a summary of a method to develop deaveraged  
8 UNE loop rates for Verizon, and  
9 (e) Direct Attachment TD-5 provides Verizon’s updated switched access costs.

10  
11 **Q. FOR WHICH SPECIFIC UNES IS VERIZON PROPOSING RATES IN THIS**  
12 **PROCEEDING?**

13 A. Verizon is proposing MRCs for a comprehensive set of UNEs that comply with the  
14 Federal Communication Commission’s (“FCC’s”) First Report and Order<sup>1</sup> concerning  
15 local competition as well as its recent UNE Remand Order.<sup>2</sup> As depicted in Direct  
16 Attachment TD-2, the items for which MRCs are being proposed include:

- 17 (1) Deaveraged (when appropriate) UNE loops and subloops:  
18 (a) 2-wire,  
19 (b) 4-wire,

---

<sup>1</sup>Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, *First Report and Order*, FCC No. 96-325, CC Docket Nos. 96-98, 95-185, 11 F.C.C.R. 154, (August 8, 1996) (hereinafter “Local Competition Order”).

<sup>2</sup> Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, *Third Report and Order and Fourth Further Notice of Proposed Rulemaking*, FCC No. 99-238, CC Docket Nos. 96-98, 15 F.C.C.R. 3696, (November 5, 1999) (hereinafter “UNE Remand Order”).

- (c) DS-1,
- (d) DS-3, and when needed
- (e) ISDN Loop Extensions,
- (2) Network Interface Device (“NID”),
- (3) Local Switching:
  - (a) Ports,
  - (b) Local End-Office Switching, and
  - (c) Vertical Features,
- (4) Tandem Switching,
- (5) Interoffice Transport Facilities:
  - (a) Competitive Local Exchange Carrier (“CLEC”) Dedicated Transport,
  - (b) Interoffice Dedicated Transport, and
  - (c) Common Transport,
- (6) Dark Fiber:
  - (a) Loops, and
  - (b) Interoffice Transport
- (7) UNE Platforms (“UNE-Ps”),
- (8) Signaling System – 7 (“SS-7”) Network items:
  - (a) Access, and
  - (b) Call Related Database Queries, and

This testimony will also discuss the Company’s positions concerning the offering and, as appropriate, the proposed prices for:

- (9) Customized Routing and Operator Services / Directory Assistance (“OS/DA”),
- (10) Packet Switching, and
- (11) Enhanced Extended Links (“EELs”).

**Q. WHAT ORDERING AND PROVISIONING NRCS IS VERIZON PROPOSING IN THIS PROCEEDING?**

A. Verizon is proposing NRCs for ordering and service connection activities associated with the following items:

- (1) UNE Loops and Subloops,
- (2) Loop Conditioning,
- (3) Line Sharing,
- (4) NIDs,
- (5) Ports,
- (6) UNE-Ps,
- (7) EELs,
- (8) Dark Fiber,
- (9) Dedicated Transport,
- (10) SS-7 Access,
- (11) Interim Number Portability, and
- (12) Miscellaneous UNE conversion / expedite charges.
- (13) Resale

**Q. WHAT OTHER VERIZON WITNESSES ARE FILING DIRECT TESTIMONY IN THIS DOCKET?**

A. In addition to my testimony, Verizon is presenting the testimony of four witnesses that support the Company's costs and proposed rates for specific UNEs, and Operations Support Systems ("OSS") projects. These costs and rates fall into two categories: (1) the monthly costs and prices of the specific item, which are reflected in Verizon's proposed MRCs, and (2) the costs and prices for ordering and service connection activities associated with the various items, which are reflected in Verizon's proposed NRCs. In

1 addition, Verizon is presenting the testimony of Ms. Zigler to sponsor the avoided cost  
2 study.

3  
4 **Verizon witness David Tucek** sponsors the Integrated Cost Model Version 4.2 ("ICM"),  
5 which calculates the total element long run incremental cost ("TELRIC") of the various  
6 UNEs.<sup>3</sup> ICM is also used to calculate Verizon's switched access costs.

7  
8 **Verizon witness Barbara Ellis** sponsors the cost study that supports Verizon's proposed  
9 NRCs, associated with various ordering and provisioning activities.

10  
11 **Verizon witness Richard Werner** sponsors the OSS cost study that supports Verizon's  
12 transitional or transactional costs.

13  
14 **Verizon witness Michelle Richardson** describes Verizon's OSS and the projects it has  
15 taken to provide CLECs access to OSS. She also supports Verizon's position on what  
16 OSS costs should be recovered.

17  
18 **Verizon witness Connie Zigler** sponsors the avoided cost study that supports Verizon's  
19 resale discount.

20  

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<sup>3</sup>Verizon's cost studies, permanent rates and proposed rates comport with the TELRIC approach reflected in the FCC's pricing rules that have been invalidated by the Eighth Circuit Court, and are subject to further review by the courts. *See Iowa Utilities Bd., et al. v. FCC*, 219 F.3d 744, 759 (8th Cir. 2000). As such, any rates established in this proceeding should be subject to adjustment in the event those rules are changed.

1 I use Mr. Tucek's cost calculations to develop monthly recurring prices for the various  
2 UNEs, while I use Ms. Ellis's cost calculations, along with Mr. Werner and Ms.  
3 Richardson's OSS costs, to develop a set of non-recurring ordering and provisioning  
4 charges for UNEs.

5  
6 **Q. HOW IS YOUR REMAINING TESTIMONY ORGANIZED?**

7 A. The remaining testimony is structured into five additional sections. Section II presents a  
8 brief discussion of the general pricing policies Verizon is following in this proceeding.  
9 Section III discusses the development of Verizon's proposed MRCs for the various UNEs  
10 that are the subject of this testimony. Section IV presents Verizon's proposed NRCs for  
11 the various UNEs. Section V discusses Verizon's line sharing offerings. Lastly, Section  
12 VI presents Verizon's updated-switched access long-run service incremental costs  
13 ("LRSICs").

14  
15 **II. GENERAL PRICING POLICY**

16  
17 **Q. WHAT IS THE APPROPRIATE RATE STRUCTURE FOR UNES?**

18 A. The rate structure for each UNE should reflect a balance of (1) cost-causation principles,  
19 e.g., the matching of costs to prices, (2) the opportunity for cost recovery, and (3) ease of  
20 administration, e.g., the costs of billing.

1   **Q.    CAN YOU PROVIDE AN EXAMPLE OF HOW THIS WILL APPLY?**

2    A.    Yes, based on cost causation attributes, the cost of unbundled local switching could be  
3       divided into three cost sub-categories: (1) local call set-up, (2) local call duration, and (3)  
4       local call transport distance. Theoretically, Verizon could develop three separate rate  
5       elements for recovery of local switching costs. Verizon however, charges an average per  
6       minute of use ("MOU") rate that assumes an average length of inter-office transport and a  
7       holding time ("local call duration") of about four minutes. Most other ILECs also use  
8       this same rate structure. For typical local calls, this rate structure makes sense – it  
9       captures the average cost-causative attributes for what the Company has historically  
10      observed as an average local call. It is also easier to administer and bill a single MOU  
11      rate, and this rate allows the ILEC to recover its costs because the typical local call  
12      historically has had an average holding time of about four minutes.

13  
14      In some instances, however, a different rate structure may be appropriate. For example,  
15      many CLECs argue that ISP traffic is "local" and that the ILEC's local switching rate  
16      should be used for reciprocal compensation purposes. This ISP traffic, however, has  
17      much longer holding times than typical local calls – usually 30 minutes or more per call.  
18      Verizon's position is that this traffic is not local, but if it is treated as local, a different  
19      rate structure would be required, such as a MOU rate that assumes a holding time of at  
20      least 30 minutes, or a two-part rate that recovers call set-up costs separately. These types  
21      of rate structures more accurately reflect the cost characteristics of ISP traffic, and more  
22      properly balances cost causation and cost recovery.

1 **Q. DO THE COMPANY'S PROPOSED RATE STRUCTURES FACILITATE A**  
2 **BALANCE OF THE THREE OBJECTIVES YOU CITED ABOVE?**

3 A. The rate structures proposed by the Company satisfy two of the objectives in that they  
4 reflect cost-causative principles and they are easily administered by Verizon. The  
5 remaining objective cited is not likely to be met. The proposed rate structures will, by  
6 their design, not give the Company an opportunity to recover its total costs because the  
7 proposed UNE rates do not reflect a rational relationship with current retail rate  
8 structures. This imbalance between UNE rates and retail rates will only facilitate rate  
9 arbitrage by entering CLECs, which necessarily destroys the Company's opportunity to  
10 recover its total costs.

11  
12 In terms of future ease of administration, Verizon may, over time, desire to alter its rate  
13 structures for various UNEs as efforts unfold to migrate to rate structures that are  
14 consistent across the entire Verizon footprint.

15  
16 **Q. WHAT CAUSES THIS IMBALANCE BETWEEN UNE RATES AND RETAIL**  
17 **RATES?**

18 A. There are three major causes for this imbalance. First, retail rates were designed to give  
19 the Company an opportunity to recover its total actual costs, which may or may not be  
20 closely related to estimates of the Company's total long-run incremental costs. Second,  
21 retail rates were designed for a closed monopoly-like market, which allowed for a rate  
22 design that could support public policy objectives (e.g., universal service) without

1 exposure to competitive arbitrage. This public policy orientation resulted in many retail  
2 rates not being reflective of their underlying cost characteristics.

3  
4 Lastly, the UNE rates proposed in this proceeding are based totally on estimates of the  
5 TELRIC of the UNE plus a share of forward-looking common costs. As such, UNE rates  
6 are intended to be reflective of their underlying “long-run” cost characteristics. But given  
7 the various assumptions employed in long-run, forward looking cost estimates, TELRIC-  
8 based rates, when viewed in aggregate across all UNEs, may not be reflective of the  
9 Company’s total actual costs. Even if the UNE rates are, in a theoretical total market,  
10 reflective of the Company’s total actual costs, the disorientation between “cost-based”  
11 UNE rates and “non-cost-based” retail rates mandates a market imbalance between these  
12 rate structures. As previously stated, this imbalance will only lead to CLEC arbitrage  
13 (the targeting of low cost, high priced retail services) which necessarily destroys the  
14 Company’s ability to recover its total actual costs.

15  
16 **Q. BUT AREN’T UNE PRICES REQUIRED TO BE BASED SOLELY ON TELRIC**  
17 **PLUS A SHARE OF “FORWARD-LOOKING” COMMON COSTS?**

18 A. Yes, the FCC’s pricing rules (as of the drafting of this testimony) require UNE prices to  
19 be based solely on TELRICs plus a share of forward-looking common costs. Verizon  
20 does not agree with the FCC’s costing and pricing rules, but is proposing rates in  
21 accordance with the FCC’s rules, which also satisfies the requirements of Verizon’s  
22 Illinois Merger Order.<sup>4</sup> To be specific, Verizon continues to strongly oppose the use of

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<sup>4</sup>Order Approving Joint application for the approval of a corporate reorganization involving a merger of GTE Corporation and Bell Atlantic Corporation, Docket No. 98-0866 (I.C.C. October 29, 1999).

1 proxy models or hypothetical cost studies for determining the costs and rates for UNEs.  
2 Permanent rates should reflect the actual forward-looking costs that Verizon is expected  
3 to realize during the time period that UNE rates are in effect.  
4

5 On July 18, 2000, the U.S. Court of Appeals for the Eighth Circuit determined that the  
6 FCC's interpretation of the TELRIC methodology was unlawful. Iowa Utilities Bd., et al.  
7 v. FCC, 219 F.3d 744 (8th Cir. 2000). This ruling is consistent with the position Verizon,  
8 as GTE North Inc. and GTE South Inc., previously took before this Commission. As  
9 such, Verizon reserves its right to propose new UNE rates after the legal issue of the  
10 appropriate cost model methodology is resolved at the federal level.  
11

12 **Q. WHAT PROCEDURES HAS VERIZON USED TO DEVELOP ITS PROPOSED**  
13 **UNE RATES?**

14 A. As previously stated, Verizon is proposing rates that are consistent with the FCC's rules  
15 which dictate that UNE prices should be based on a forward-looking cost-based pricing  
16 methodology<sup>5</sup> where forward-looking economic costs are defined by the FCC<sup>6</sup> as the sum  
17 of:

18 (1) the TELRIC of the element, and

19 (2) a reasonable allocation of forward-looking common costs.  
20

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<sup>5</sup>47 C.F.R. § 51.503(b)(1).

<sup>6</sup>47 C.F.R. § 51.505(a).

1 As such, Verizon's general pricing methodology for UNEs can briefly be summarized as  
2 follows:

- 3 1. MRCs for UNEs will include an equal percentage mark-up above their  
4 TELRIC for recovery of the Company's forward looking common costs  
5 (e.g., a fixed-allocation pricing procedure). The TELRICs in support of  
6 each proposed MRC element are supported by the Direct Testimony of  
7 Verizon witness David Tucek.
- 8 2. Ordering and service connection NRCs will be priced at cost with no  
9 additional mark-up for recovery of common costs (common cost recovery  
10 will occur solely through monthly rates). The cost support for each  
11 proposed NRC is addressed in the Direct Testimony of Verizon witness  
12 Barbara Ellis.

13  
14 **Q. ARE THE PRICING PROPOSALS PRESENTED BY YOU CONSISTENT WITH**  
15 **EXISTING ILLINOIS RULES?**

16 A. Yes. As discussed by Mr. Tucek, the costs upon which the prices are based are consistent  
17 with the costing standards established by the Illinois Commerce Commission ("ICC" or  
18 "Commission") in its Part 791 Cost of service Rules. Specifically, the proposed rates for  
19 each element are designed to be consistent with the manner in which the costs of  
20 providing that element are incurred and only recover the TELRIC of the element plus a  
21 relative share of the Company's forward-looking common costs.

1 **Q. DOES A FIXED-ALLOCATION APPROACH COMPLY WITH THE FCC'S**  
2 **PRICING RULES?**

3 A. Yes. In its Local Competition Order, the FCC held that a fixed-allocator is a "reasonable  
4 allocation method." Local Competition Order at ¶ 696.

5  
6 **Q. DOES THE FIXED-ALLOCATOR PROCEDURE RESULT IN PRICE SETS**  
7 **THAT MIMIC THOSE THAT WOULD BE FOUND IN A COMPETITIVE**  
8 **MARKETPLACE?**

9 A. A fixed-allocation based procedure does not necessarily result in price sets that reflect the  
10 competitive market. Where, as here, significant common costs must be recovered, "the  
11 orthodox concept of second best pricing is the inverse elasticity principle, or Ramsey  
12 pricing." *Nat'l Rural Telecom Assoc. v. FCC*, 988 F.2d 174, 182 (D.C. Cir. 1993).  
13 Currently however, the FCC expressly forbids the use of Ramsey pricing in setting UNE  
14 rates because it could "raise the prices" of "relatively inelastic" UNEs, such as the local  
15 loop. Local Competition Order at ¶ 696. In other words, economic efficiency and  
16 competitive markets dictate Ramsey-based prices, but the FCC expressly prohibits such  
17 prices. Verizon does not agree with the FCC's self-contradictory analysis or the FCC's  
18 pricing rules. Nevertheless, Verizon has complied with these rules in developing UNE  
19 prices in this proceeding.

20  
21 **Q. WHAT COMMON COST RECOVERY FACTOR IS USED AS THE BASIS FOR**  
22 **THE FIXED-ALLOCATOR FOR DETERMINING COST-BASED MRCS?**

23 A. The fixed-allocation factor was determined using the following formula:

Fixed-Allocator =  $TWCC / DC$

where: TWCC = Total Wholesale-related Common Costs, and

DC = Direct Costs

Within this formula Direct Costs equal the sum of all direct costs for all UNEs that would be needed by CLECs to serve all existing customers. The Direct Costs also include the direct costs for the MRC elements of collocation. Please note, however, that the Direct Costs that act as the denominator of Verizon's equation include only the direct costs of those elements that are being marked up. If an MRC does not include a mark-up, then the direct costs of those facilities or activities associated with the MRC are not included in the denominator. Verizon does not propose to mark-up any of its NRCs; therefore, the direct costs associated with these NRCs are excluded from Verizon's calculation.

As shown in the Company's cost study filing, Verizon's total forward-looking common costs equal \$66 million per year. The sum of the TELRICs for all UNEs and other direct costs of facilities to be marked up approximately \$590 million per year (this calculation is shown on Direct Attachment TD-1). Taking these figures and applying the above formula results in a fixed-allocation factor of 0.1123 or (\$66.226 million / \$589.858 million).

**Q. HOW IS THE FIXED ALLOCATION FACTOR USED TO ARRIVE AT THE MRC FOR A GIVEN UNE?**

A. The proposed MRC for each item presented in this proceeding is computed from the following formula:

$$MRC = TELRIC * (1 + \text{Fixed Allocation Factor})$$

Which, given the costs filed by Verizon in this proceeding, results in

$$\text{MRC} = \text{TELRIC} * (1 + 0.1123)$$

As an example computation given this formula, if the TELRIC of a specific UNE were \$30 per month, we would multiply it by 1.1123 to arrive at a price for that UNE of \$33.37.

**A. DEAVERAGING POLICIES**

**Q. GIVEN TODAY'S MARKET ENVIRONMENT WHAT IS THE APPROPRIATE METHODOLOGY TO DEAVERAGE UNES?**

A. Given that the FCC's rules require UNE prices to be deaveraged into at least three zones per state based on geographic differences in cost, Verizon believes the Commission has three options for establishing UNE rates for the Company. First, and Verizon's preferred option, the Commission should retain a single rate for Verizon to go along with the different cost-based rates already established for Ameritech. In this manner, the Commission would have established at least three zones in the state of Illinois, each zone reflecting different cost characteristics. Since this option would result in UNE rates that are more rationally aligned with retail rates, this option would mitigate the potential for undue CLEC rate arbitrage.

Second, if the Commission rejects the first option, then Verizon proposes three cost-based zones for its specific service area. Ideally, however, and consistent with sound public policy, the Commission would not implement this option until Verizon's retail and

1 wholesale UNE rates are rationally aligned. Such an approach is not only appropriate  
2 from a public policy perspective – it is also consistent with the Act and the FCC’s  
3 requirements for deaveraging. Verizon’s methodology for developing these zones is  
4 fairly straightforward: first, we calculate the average costs for UNEs at a wire center  
5 level; second, we identify those UNEs that have significant cost differences between wire  
6 centers; third, we map or group each wire center into one of three cost-based zones. The  
7 deaveraged rate proposals discussed in Section III of this testimony are based on this  
8 option should the Commission require Verizon to have rates for three Company-specific  
9 geographic zones.

10  
11 Third, if the Commission rejects the previous two approaches, the Commission could  
12 establish three zones for the entire state based on the characteristics (e.g., wire center cost  
13 or density) of the three zones already established for Ameritech. Once the characteristics  
14 of Ameritech’s zones are identified, the Company would map its wire centers into similar  
15 zones and establish cost-based prices for the appropriate UNEs.

16  
17 **Q. WHAT FACTORS SHOULD THE COMMISSION CONSIDER IN**  
18 **ESTABLISHING RATES AND CHARGES FOR UNES (INCLUDING**  
19 **DEAVERAGED UNES AND UNE COMBINATIONS)?**

20 **A.** First, the Commission should consider the effect of UNE rates on the preservation and  
21 advancement of universal service and on the development of fair and efficient  
22 competition. These considerations would necessarily lead to an objective of creating  
23 UNE price sets that exhibit a rational relationship with retail rates.

1 If the Commission were to ignore the misalignment between UNE rates and retail rates  
2 and mandate the further deaveraging of UNEs, then UNE rates should minimally reflect a  
3 reasonable share of the Company's common costs and should be deaveraged only for  
4 those UNEs that exhibit material variations in cost.

5  
6 Moreover, UNE costs should be calculated at a wire center level. If costs vary  
7 significantly between wire centers, then the wire centers should be mapped into rate  
8 zones so that a single UNE price can be established for each zone. In creating these rate  
9 zones, the Commission must weigh the costs of deaveraging (e.g., the administrative and  
10 billing costs) against the expected consumer gains.

11  
12 **Q. DOESN'T VERIZON HAVE DEAVERAGED RETAIL RATES TODAY WHICH**  
13 **REFLECT COST DIFFERENCES?**

14 A. Yes, and no. For instance, in the Verizon North Inc., tariff (Ill. C.C. No. 9, Section 2,  
15 Seventh Revised Sheet No. 6) the Access line rate for Class A exchanges is \$15.99 and  
16 the rate for Class B exchanges is \$16.99. Therefore, technically the rates are deaveraged  
17 into two "zones" and are cost directional,<sup>7</sup> however based on the UNE loop cost  
18 information the Class B exchange rate should be about twice as high as the Class A  
19 exchange rates. Therefore, based on the small rate difference in the current retail rates,  
20 the Company recommends the Commission retain a single rate for Verizon's unbundled  
21 loops, until such time as the retail rates are more closely aligned with their underlying  
22 costs.

---

<sup>7</sup>For the Verizon South exchanges, representing approximately 4.5 percent of the lines the retail rates are not cost directional in that the higher cost exchanges have the lower rates.

1 **Q. IF VERIZON IS REQUIRED BY THE COMMISSION TO DEAVERAGE UNE**  
2 **RATES, FOR WHICH UNES SHOULD THE COMMISSION CONSIDER**  
3 **SETTING DEAVERAGED RATES?**

4 A. At this time, only loop prices should be considered for deaveraging, because only loop  
5 costs show significant variation between different geographic areas. Although switching  
6 costs do vary based upon the size of switch and traffic volumes, they are not significant  
7 enough to warrant deaveraged unbundled switching prices. Additionally, Mr. Tucek's  
8 sponsored TELRICs for interoffice transmission facilities already reflect distance, traffic,  
9 and volume characteristics that effectively will result in deaveraged rates for these UNE  
10 offerings.

11  
12 It appears that CLECs agree. For example, in the state of Washington (Dockets No. UT-  
13 960369, UT-960370 and UT-960371), AT&T stated that "[the] Commission need only  
14 deaverage the unbundled loop rate. . . . Obviously, it does not make sense to deaverage  
15 rates where real cost differences do not exist." (Direct Testimony of AT&T witness  
16 Denny, at pages 2-3). Other CLECs echoed this point. (Reply Testimony of William  
17 Page Montgomery on behalf of Advanced TelCom Group, Inc., Electric Lightwave, Inc.,  
18 GST Telcom Washington, Inc., NewEdge Networks, Inc., and Nextlink Washington, Inc.,  
19 at page 3). Following this logic, the prices for UNE combinations should be deaveraged  
20 only for those combinations that include the local loop.

21  
22 Verizon, however, would not propose deaveraged prices for all facilities that the FCC  
23 defines as "loops." In its UNE Remand Order, the FCC included the following in its

1 definition of loop: inside wiring; loop conditioning; dark fiber; attached electronics (e.g.,  
2 multiplexing equipment); high-capacity loops (e.g., DS-1s); private line and special  
3 access facilities; and cross connects. UNE Remand Order ¶ 167. Verizon is not  
4 proposing prices for inside wiring since no material amount of Company owned inside  
5 wire exists in Illinois. Also the Company is not proposing to deaverage prices for dark  
6 fiber, loop conditioning, attached electronics, or cross connects, which do not seem to  
7 possess cost characteristics that vary by geography. Currently, only the 2-wire, 4-wire,  
8 and various high-capacity loops (which also will allow for CLEC provisioning of private  
9 line and special access facilities) should be considered for geographic deaveraging –  
10 when the time is right to implement deaveraged rates. Likewise, if the Commission  
11 orders the deaveraging of UNE prices for these loops, then it would also be appropriate to  
12 deaverage prices for all UNE combinations that include these loops.

13  
14 **Q. IS VERIZON PRESENTING ANY DEAVERAGED UNE RATES IN THIS**  
15 **PROCEEDING?**

16 A. Again, the Company believes that the Commission should maintain a statewide rate  
17 structure for Verizon's UNEs. But if the Commission rejects this option, I am also  
18 providing a geographically deaveraged rate proposal for various UNEs (in addition to  
19 proposed statewide average rates).

20  
21 **Q. IF THE COMMISSION CHOOSES TO DEAVERAGE UNE RATES IN THIS**  
22 **PROCEEDING, THEN HOW COULD IT DO SO WHILE MINIMIZING THE**  
23 **RATE DISPARITY BETWEEN RETAIL AND WHOLESALE UNE RATES?**

1 A. The Commission could adopt Verizon's proposed three zones in structure leaving the  
2 rates for each of the three zones the same at this time. This alternative would clearly  
3 inform the Company and CLECs that the Commission fully intends to deaverage  
4 Verizon's rates but not at this point in time given public policy implications. Again, the  
5 Commission is under no legal obligation to deaverage Verizon's UNE rates at this time.  
6 Deaveraging the UNE rates within the three-zone structure, under this alternative, would  
7 be addressed at a latter date in conjunction with an examination of Verizon's retail rates.  
8

9 **III. MRC PRICING PROPOSALS**

10  
11 **A. UNBUNDLED LOCAL LOOPS**

12 **Q. WHAT ARE UNBUNDLED LOCAL LOOPS?**

13 A. As described in the FCC's Rule, 47 C.F.R. § 51.319(a), a local loop UNE is defined as a  
14 transmission facility between a distribution frame (or its equivalent) in an ILEC central  
15 office and the loop demarcation point at an end-user customer premises, including any  
16 inside wiring owned by the ILEC.  
17

18 **Q. FOR WHAT SPECIFIC UNBUNDLED LOOPS IS VERIZON PROVIDING**  
19 **RATES FOR IN THIS PROCEEDING?**

20 A. Rates are being proposed for 2-wire and 4-wire UNE loops, high capacity DS-1 and DS-3  
21 UNE loops, and dark fiber loops.  
22

1        **I.        2-WIRE, 4-WIRE, DS-1, AND DS-3**

2        **Q.        WHAT IS A 2-WIRE LOOP?**

3        A.        A two-wire loop is a transmission circuit consisting of two wires (i.e. one pair) that is  
4        used to both send and receive either voice or data transmissions.

5  
6        **Q.        WHAT IS A 4-WIRE LOOP?**

7        A.        A four-wire loop consists of two pairs of wires, one to transmit and one to receive. These  
8        loops are usually used in certain private line and data service applications.

9  
10       **Q.        CAN 2-WIRE AND 4-WIRE UNE LOOPS BE USED TO PROVIDE BOTH**  
11       **ANALOG AND DIGITAL SERVICES?**

12       A.        Yes, with certain qualifications. Depending on the technical parameters of each digital  
13       offering, it may be necessary to condition the loop to assure that those technical  
14       parameters can be achieved over the specific individual loop. The specific charges for  
15       conditioning loops is discussed in the next section of this testimony. In some cases, it  
16       may be impossible for Verizon to assure that a specific loop can sustain the technical  
17       parameters required to provision a specific digital service (e.g., the loop length is too long  
18       to technically support the desired service). In these cases, the specific loop, whether  
19       conditioned or not, will be unable to support the provision of a digital service.

1 **Q. PLEASE DESCRIBE THE HIGH CAPACITY LOOPS FOR WHICH VERIZON**  
2 **IS PROPOSING RATES IN THIS PROCEEDING?**

3 A. Verizon is proposing rates for DS-1 and DS-3 high capacity loops. A DS-1 loop is a 4-  
4 wire loop that has been conditioned to support DS-1 transmission, including associated  
5 electronics. It can be used to provide full-period services (e.g., private line) and switched  
6 services (e.g., ISDN Primary Rate Interface) to end-users. In contrast, DS-3 UNE loops  
7 are provisioned over fiber optic cable and include the electronics necessary to facilitate  
8 DS-3 transmission.

9  
10 **Q. ARE VERIZON'S RATE PROPOSALS FOR UNE LOOPS DEAVERAGED BY**  
11 **GEOGRAPHIC AREA?**

12 A. Yes and no. The cost studies sponsored by Verizon witness David Tucek indicate that  
13 only 2-wire, 4-wire, and DS-1 UNE loops exhibit cost characteristics that support  
14 geographic deaveraging, while the various costs for DS-3 UNE loops exhibit minimal  
15 levels of geographic variation. Therefore, I am only proposing to geographically  
16 deaverage rates for 2-wire, 4-wire, and DS-1 UNE loops.

17  
18 **Q. HOW DID VERIZON DEVELOP THESE COST-BASED ZONES AND THE**  
19 **RESULTING MRCS?**

20 A. As discussed earlier, Verizon calculated loop costs at the wire center level and then  
21 "mapped" each wire center into one of three cost-based zones.

1 In Illinois, Verizon has 415 wire centers. The two-wire UNE loop costs in each wire  
2 center are shown on Direct Attachment TD-4. As illustrated by that Direct Attachment,  
3 the TELRICs of the unbundled two-wire loops vary from a low of \$XXX to a high of  
4 \$XXX, and the resulting statewide average cost is \$30.37.

5  
6 All wire centers in which the average loop cost is less than the statewide average loop  
7 cost of \$30.37 were mapped to Zone 1. All wire centers in which the average loop cost is  
8 between the statewide average and 150% of the statewide average were mapped to Zone  
9 2. All wire centers in which the average loop cost is greater than 150% of the statewide  
10 average were mapped to Zone 3.

11  
12 Once the wire centers were mapped, we calculated the average UNE loop cost for each  
13 zone. These calculations are shown on Direct Attachment TD-4. The specific UNE loop  
14 rate for each zone was then determined by adding to the zone specific TELRICs a  
15 uniform amount for recovery of common costs. The determination of the uniform  
16 amount for recovery of common costs and the resulting zone-specific rates are shown in  
17 Direct Attachment TD-2.

18  
19 **Q. PLEASE FURTHER DISCUSS THE CONCEPT OF ADDING A UNE-SPECIFIC**  
20 **UNIFORM AMOUNT FOR RECOVERY OF COMMON COSTS WHEN**  
21 **DEVELOPING THE COMPANY'S PROPOSED GEOGRAPHICALLY**  
22 **DEAVERAGED RATE LEVELS.**

A. This procedure results in the same “absolute” amount of common cost recovery being obtained from the sale of a UNE loop regardless of the geographic zone in which the loop is sold. Since it is based on a fixed percent of direct costs, the fixed allocator procedure would result in a large absolute amount of common cost assignment to “high-cost” rural areas and a small absolute amount to low-cost urban areas when geographic deaveraging is implemented. Verizon believes it is not reasonable to assign a relatively larger share of common cost recovery to rural loops than to urban loops. Thus, to spread the burden of common cost recovery equitably, an equal “absolute” amount was assigned to each geographic zone. This “equal, absolute” amount was determined by computing the fix-allocation amount for common cost recovery using only the statewide average TELRIC for each item to be deaveraged. This uniform amount was then added to the deaveraged TELRICs for each geographic zone to determine the UNE loop price for each zone

For example, assume the following table presents the geographic-specific costs of a 2-wire loop.

<b>ZONE</b>	<b>TELRIC COST</b>
Statewide Average	\$20.00
ZONE 1	\$10.00
ZONE 2	\$20.00
ZONE 3	\$40.00

If the common cost mark-up factor were 15 percent, then, on average, \$3.00 would be recovered from each UNE loop sold. But applying the 15 percent mark-up to each deaveraged cost would result in Zone 1 UNE loops contributing \$1.50 toward the recovery of the Company’s common costs while the sale of a Zone 3 UNE loop would

1 result in \$6.00 contribution toward recovery of common costs. The burden of common  
2 cost recovery should not be skewed based on the geographic location of a given UNE.  
3 Verizon's proposed methodology rectifies this potential outcome by assigning an amount  
4 for recovery of common costs based solely on the statewide average cost of that UNE.  
5 Thus, in this example, the price of a 2-wire UNE loop in each of the 3 zones would  
6 include the average \$3.00 mark-up for recovery of common costs.

7  
8 **2. ISDN LOOP EXTENDERS**

9 **Q. WHEN ARE ISDN LOOP EXTENDERS NECESSARY?**

10 A. In many cases, CLECs should be able to provision ISDN Basic Rate Interface ("ISDN  
11 BRI") services to their end-users through the use of a basic 2-wire UNE loop. However,  
12 when the loop length exceeds the technical serving capacity for provisioning ISDN BRI  
13 service, then the ISDN BRI loop extender UNE in conjunction with the basic 2-wire loop  
14 UNE allows the CLEC to provide ISDN BRI service to their end-users.

15  
16 **Q. WHAT PRICES IS VERIZON PROPOSING FOR AN ISDN LOOP EXTENDER**  
17 **AND WHEN WOULD THESE PRICES BE APPLICABLE?**

18 A. Direct Attachment TD-2 contains the proposed MRC for an ISDN loop extender. Loop  
19 extension rates apply only when required to facilitate the provision of ISDN BRI service.

**B. NETWORK INTERFACE DEVICE**

**Q. WHAT IS A NID?**

A. As described by the FCC Rule, 47 C.F.R. § 51.319(b), a NID is defined as any means of interconnection of end-users customer premise wiring to the ILEC's distribution plant. The NID can be thought of in two ways: (1) it may, consistent with Verizon's proposed UNE loop rates, be considered a component of the total UNE loop, and (2) it is a network element subject to unbundling in its own right.

**Q. WHAT RATES IS VERIZON PROPOSING FOR THE USE OF A NID?**

A. The fixed allocation derived rates to support the interconnection of 2-wire loops and 4-wire loops are presented in Direct Attachment TD-2.

**C. UNBUNDLED SUBLOOPS**

**Q. FOR WHAT SUBLOOP ELEMENTS IS VERIZON PROPOSING PRICES?**

A. Verizon is proposing rates for three separate subloop elements for both 2-wire and 4-wire UNE loops: (1) feeder, (2) distribution, and (3) drop. The feeder subloop is the loop facility that extends from Verizon's central office main distribution frame ("MDF") to a feeder distribution interface ("FDI"). The distribution facility extends from the FDI to, and including, the NID at the customer's premises. Verizon is also proposing rates for the "drop," (which is defined for the provision of "one" line) that extends from the pedestal or terminal serving the customer's premise to, and including, the NID at the customer's premises.

1 In addition, the Company proposes to separate dark fiber loops into two subloop  
2 categories – feeder and distribution.

3  
4 **Q. HOW DO CLECs GAIN ACCESS TO SUBLOOP FACILITIES?**

5 A. The existence of and ability to access subloop elements is very customer-specific and  
6 must be evaluated on a case-by-case basis. Access to subloop elements may occur at an  
7 MDF, the FDI, or at the terminal serving the customer's premise. In all cases, the  
8 requesting CLEC must first collocate at the point (or points) where access to the subloop  
9 is requested or establish a point of connection at those points. A point of connection is  
10 like a meet-point arrangement in that it is a physical interface that establishes the point at  
11 which the ILEC's facilities will be connected with the CLEC's facilities. In order to  
12 establish a point of connection at the requested interface location, the CLEC must first  
13 submit a Collocation Request to its Verizon account management team. The collocation  
14 request process will determine the technical feasibility of the CLEC's unbundled subloop  
15 request, any labor and/or capital costs for which the CLEC is responsible, and the  
16 proposed provisioning time frames to facilitate the creation of a point of connection with  
17 the CLEC. The CLEC may also, as an alternative, submit a Bona Fide Request ("BFR")  
18 to preposition itself at either the FDI or terminal.

19  
20 **Q. WHAT RATES IS VERIZON PROPOSING FOR UNE SUBLOOP ELEMENTS?**

21 A. Verizon's proposed TELRIC-derived, deaveraged MRC rates are depicted in Direct  
22 Attachment TD-2, while the appropriate ordering and service connection NRCs (which

will be discussed in Section IV of this testimony) are contained in Direct Attachment TD-3.

**Q. HOW WERE THE MRC RATES FOR SUBLOOPS DEVELOPED?**

A. Mr. Tucek provided wire center specific TELRIC estimates for 2-wire and 4-wire feeder, distribution, and drop categories. These wire center specific estimates were then mapped to the three deaveraged zones that were established for the total loop UNEs. Based on this mapping of wire centers to deaveraged zones, zone-specific average costs were then developed for feeder, distribution, and the drop. Similar to the development of the total loop UNE prices, a uniform amount for each subloop category (based on the appropriate statewide TELRIC) was determined for recovery of common costs. Thus, the resulting proposed price for each subloop category was determined based on the following:

$$\text{MRC} = \text{TELRIC} + \text{Subloop's Uniform Common Cost Recovery Amount}$$

**D. LOCAL END OFFICE SWITCHING**

**Q. HOW DOES VERIZON DEFINE LOCAL CIRCUIT SWITCHING?**

A. Consistent with FCC Rule, 47 C.F.R. §51.319(c)(1)(A), Verizon defines local circuit switching UNEs to include all the necessary facilities and functions required to support the connection of end-user loops to a switch card and facilitate the switching of calls to their appropriate destination. In addition, switch features that allow for the provision of enhanced vertical offerings are also included in the Company's definition of local circuit switching.

**Q. WHAT LOCAL SWITCHING RATE ELEMENTS IS VERIZON PROPOSING?**

A. Three categories of elements are being proposed: (1) end-user ports, (2) local end-office switch usage, and (3) vertical feature usage.

**1. PORTS**

**Q. WHAT UNES IS VERIZON PROPOSING FOR SWITCH PORTS?**

A. The Company is proposing UNE rates for five types of switch ports: (1) a basic port, (2) a coin line port, (3) an ISDN BRI line side port, (4) a DS-1 trunk side port, and (5) an ISDN PRI trunk side port.

**Q. WHAT RATES ARE YOU PROPOSING FOR EACH OF THESE VARIOUS SWITCH PORTS?**

A. Verizon's proposed MRCs can be found in Direct Attachment TD-2.

**2. END-OFFICE SWITCHING**

**Q. WHAT RATE IS VERIZON PROPOSING FOR END-OFFICE SWITCHING?**

A. The proposed rate, based on a per minute-of-use ("MOU") structure, is also presented in Direct Attachment TD-2.

1        **3. SWITCH FEATURES**

2        **Q. HOW DOES VERIZON PROPOSE TO RECOVER THE COSTS OF PROVIDING**  
3        **UNBUNDLED ACCESS TO THE VARIOUS FEATURES OF A SWITCH?**

4        A. Verizon proposes that the Commission adopt feature-specific rates, where the rates are  
5        based on each feature's specific TELRIC plus a reasonable allocation of the Company's  
6        common costs (e.g., the fixed-allocator pricing process). Verizon has never included the  
7        cost of various switch features in the cost of its switch ports or end-office switching  
8        UNEs. The rational method for recovery of switch feature costs is to charge the CLECs  
9        only for what they use – i.e., on a per switch feature usage basis. Verizon's proposed  
10       MRCs for the most common switch features are depicted in Direct Attachment TD-2.

11  
12       **Q. IF A CLEC DESIRES TO PURCHASE A GIVEN SWITCH FEATURE THAT IS**  
13       **NOT LISTED IN DIRECT ATTACHMENT TD-2, HOW WOULD THAT CLEC**  
14       **GAIN ACCESS TO THAT FEATURE?**

15       A. If such a feature exists on a given switch platform, Verizon proposes that BFR process be  
16       employed by the CLEC. Upon receipt of the request, Verizon will determine if the  
17       specific switch has the capability to deliver the requested feature. If the feature exists,  
18       Verizon will develop costs and prices based on the FCC's rules and negotiate the  
19       proposed offering with the requesting CLEC.

**E. TANDEM SWITCHING**

**Q. WHAT RATE IS VERIZON PROPOSING FOR USAGE OF UNBUNDLED TANDEM SWITCHING?**

A. The TELRIC-based rate for this service can be found in Direct Attachment TD-2. The rate structure is on a per minute-of-use basis.

**F. LOCAL TRANSPORT**

**Q. WHAT LOCAL / INTEROFFICE TRANSPORT OFFERING IS VERIZON PROPOSING IN THIS PROCEEDING?**

A. Verizon is proposing rates for three separate categories of local transport: (1) Common / Shared Transport, (2) Interoffice Dedicated Transport, and (3) CLEC Dedicated Transport.

**1. COMMON / SHARED TRANSPORT**

**Q. WHAT IS COMMON / SHARED TRANSPORT?**

A. As defined by FCC Rule, 47 C.F.R. § 51.319(d)(1)(C), shared transport is the usage of facilities shared by more than one carrier to facilitate the transport of calls between end-office switches, end-office switches and tandem switches, and between tandem switches in the ILEC network.

1 **Q. HOW DOES VERIZON PROPOSE TO RECOVER THE COSTS OF UNE**  
2 **COMMON / SHARED TRANSPORT?**

3 A. The Company proposes to recover these costs using a rate structure that is identical to its  
4 switched access rate structure in Illinois. Specifically, TELRIC costs were developed for  
5 transport facilities based on a “per MOU”, “per airline mile” (“ALM”) cost structure.  
6 Costs were also developed per transport termination per MOU. Based on the identified  
7 TELRICs for each of these categories of cost, the resulting fixed-allocation derived prices  
8 can be found in Direct Attachment TD-2.

9  
10 **2. INTEROFFICE DEDICATED TRANSPORT**

11 **Q. WHAT IS INTEROFFICE DEDICATED TRANSPORT?**

12 A. Interoffice dedicated transport is similar to shared / common transport except that the  
13 transport facility is dedicated to one particular customer or carrier.

14  
15 **Q. FOR WHAT INTEROFFICE DEDICATED TRANSPORT ELEMENTS IS**  
16 **VERIZON PROPOSING RATES?**

17 A. Verizon is proposing rates for three capacity-based categories of direct trunked transport:  
18 (1) a single channel voice grade or digital facility (often called a DS-0 level facility), (2)  
19 a DS-1 level facility, and (3) a DS-3 level facility. In addition, rates are being proposed  
20 for any required multiplexing, based on the following two types of multiplexing: (1) DS-  
21 1 to voice grade, and (2) DS-3 to DS-1. The rate structure for the transport facilities is  
22 based on a per central office termination basis as well as a per airline mile basis.  
23 Verizon’s proposed TELRIC-based MRC rates for each type of facility and each type of

1 multiplexing can be found in Direct Attachment TD-2. Proposed ordering and service  
2 connection NRCs can be found in Direct Attachment TD-3.

3  
4 **3. CLEC DEDICATED TRANSPORT**

5 **Q. HOW DOES VERIZON DEFINE CLEC DEDICATED TRANSPORT?**

6 A. CLEC dedicated transport is specifically defined as a transport facility between a CLEC's  
7 collocation cage in a Verizon central office and a CLEC's switch within the local  
8 exchange area served by the specific Verizon central office where the collocation cage is  
9 located. This dedicated transport facility offering is very similar to the entrance facility  
10 offerings found in most intrastate and interstate access tariffs. Verizon will offer four  
11 different types of CLEC dedicated transport facilities: (1) 2-wire, (2) 4-wire, (3) DS-1,  
12 and (4) DS-3. It must be noted that if existing facilities do not exist between Verizon's  
13 central office and the CLEC switch location, Verizon is under no obligation and will not  
14 build new facilities for provisioning of this offering. The specific fixed-allocation  
15 derived rates for each of the various offerings can be found in Direct Attachment TD-2.

16  
17 **G. DARK FIBER**

18 **Q. WHAT IS DARK FIBER?**

19 A. Dark fiber is defined as currently deployed, unused continuous fiber strands through  
20 which no light is transmitted. It is "dark" because it does not have electronics on either  
21 end of the fiber segment to energize it to transmit a telecommunications service. A strand  
22 shall not be deemed to be continuous if splicing is required to provide fiber continuity  
23 between two locations. Dark fiber will only be offered on a route-direct basis where

1 facilities exist. The CLEC buying the dark fiber is expected to put its own electronics  
2 and signals on the fiber to make it “lit.” Spare wavelengths on a fiber, which may result  
3 from the use of wave division multiplexing or dense wave division multiplexing  
4 equipment, are not considered spare dark fiber.

5  
6 The FCC provided additional definition of dark fiber by identifying it as unused fiber that  
7 is “in place and easily called into service” and “can be used by competitive LECs without  
8 installation by the incumbent.”<sup>8</sup> The FCC further clarified, “we do not require incumbent  
9 LECs to construct new transport facilities to meet specific competitive LEC point-to-  
10 point demand requirements for facilities that the incumbent LEC has not deployed for its  
11 own use.”<sup>9</sup>

12  
13 **Q. WHAT IS VERIZON’S PROPOSED MRC FOR AN UNBUNDLED DARK FIBER**  
14 **LOOP?**

15 A. First, an unbundled dark fiber loop is defined by Verizon to mean “one” continuous dark  
16 fiber optic strand between a Verizon central office’s fiber distribution panel and the main  
17 termination point, such as a fiber distribution or patch panel located within the premises  
18 of an end-user customer. Direct Attachment TD-2 provides the “per strand” MRC for a  
19 dark fiber UNE loop, as well as associated distribution and feeder sub-loop elements.  
20 The fixed-allocation pricing computations that derive these rates are also depicted in  
21 Direct Attachment TD-2.

22  

---

<sup>8</sup>UNE Remand Order, ¶ 174 n.323.

<sup>9</sup>UNE Remand Order, ¶ 324.

1 **Q. WHY DID YOU NOT PROPOSE TO DEAVERAGE THE PRICE FOR DARK**  
2 **FIBER LOOPS ON A GEOGRAPHIC BASIS?**

3 A. Dark fiber loops were assumed to exhibit the same relative level of cost variation  
4 between geographic zones as DS-3 loops exhibit, since a DS-3 loop is a fiber-based loop.  
5 The geographic cost variation for DS-3 loops did not support the deaveraging of that  
6 offering, therefore I have no rationale to support the deaveraging of dark fiber loops.  
7

8 **Q. WHAT NRCS ARE ASSOCIATED WITH DARK FIBER LOOPS?**

9 A. Verizon has established a pre-ordering process, or dark fiber inquiry, to determine if dark  
10 fiber is available between the locations and in the quantities specified by the CLEC. The  
11 charge for this preordering activity is based on Verizon's costs to initiate a review of its  
12 cable records and is listed on page 2 of Direct Attachment TD-3 as "Advanced – Service  
13 Inquiry Charge" in the "Unbundled Dark Fiber" section of the Direct Attachment.  
14

15 Verizon's proposed non-recurring cost-derived charges for ordering and service  
16 connection of dark fiber loops can also be found in Direct Attachment TD-3 in the  
17 "Unbundled Dark Fiber" section of the Direct Attachment.  
18

19 **Q. WHAT IS A DARK FIBER INTEROFFICE FACILITY ("IOF")?**

20 A. Dark fiber IOF is any existing, continuous dark fiber strand that exists between a fiber  
21 patch panel located within one Verizon central office and a fiber patch panel in either (a)

1 another Verizon central office through which the fiber is routed or (b) a CLEC central  
2 office.

3  
4 **Q. WHAT TELRIC-BASED RATES DOES VERIZON PROPOSE FOR DARK IOF?**

5 A. The proposed MRC rates between two Verizon central offices are based on a “per  
6 termination” and “per airline mile” rate structure and are depicted in Exhibit TD-2. The  
7 MRC rates for IOF between a Verizon central office and a CLEC central office identified  
8 as the dark fiber loop rates, also in Direct Attachment TD-2. Likewise, the associated  
9 NRCs for ordering and service connection are depicted in Direct Attachment TD-3 in the  
10 “Unbundled Dark Fiber” section of the Direct Attachment. Since the composite rate paid  
11 for dark fiber IOF is mileage sensitive, Verizon considers dark fiber IOF to be  
12 sufficiently deaveraged to reflect geographic cost differences. Thus, deaveraged rates for  
13 this element are inappropriate; the IOF price structure inherently accounts for geographic  
14 cost differences.

15  
16 **Q. PLEASE EXPLAIN HOW THE PROCESS FOR ORDERING UNBUNDLED**  
17 **DARK FIBER WILL WORK FOR BOTH LOOP AND INTEROFFICE**  
18 **FACILITIES.**

19 A. First, a CLEC must submit an Access Service Request (“ASR”) Service Inquiry for each  
20 dark fiber interoffice facility or loop/subloop facility requested so that Verizon can  
21 initiate a review of its cable records to determine if dark fiber is available between the  
22 locations and in the quantities specified. Verizon’s plant records for dark fiber are not  
23 mechanized at this time. Therefore, an extensive manual effort is required by two

1 different engineering groups to determine whether unused fiber capacity even exists.  
2 Verizon proposes to recover the costs associated with this effort through the previously  
3 mentioned non-recurring “Advanced - Service Inquiry Charge”, as shown in my Direct  
4 Attachment TD-3.

5  
6 Once the fiber information is provided to the CLEC, and assuming the CLEC has pre-  
7 established their collocation arrangement or point of connection, they can then submit a  
8 firm order through the ASR process. NRCs for service ordering and service connection  
9 will be applied with the firm order. The appropriate MRCs for interoffice dark fiber,  
10 dark fiber loops, or dark fiber subloops will also be applied. These proposed prices are  
11 shown in my Direct Attachment TD-2.

12  
13 To obtain access to dark fiber in the subloop, the CLEC must be pre-positioned via the  
14 BFR or collocation process as discussed above. Access to interoffice dark fiber, or the  
15 central office end of the dark fiber loop or subloop, requires the CLEC to be collocated in  
16 each central office, similar to how they gain access to other UNEs today.

17  
18 **Q. BESIDES DETERMINING IF FIBER IS PHYSICALLY AVAILABLE, DOES**  
19 **VERIZON USE ANY OTHER CRITERIA TO DETERMINE AVAILABILITY?**

20 A. Yes. The FCC, in its UNE Remand Order, specifically identified various guidelines as  
21 reasonable limitations on the availability of dark fiber<sup>10</sup> which help address the legitimate

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<sup>10</sup>UNE Remand Order, ¶ 199.

1 concerns of Verizon and other ILECs. Verizon does not agree with the FCC's ruling on  
2 dark fiber, but Verizon recognizes that these rules are in effect.

3 Because Verizon has an obligation to provide service as a carrier of last resort ("COLR"),  
4 it is concerned about ensuring that sufficient network transmission capacity exists to meet  
5 its service commitments. Requiring ILECs to make their reserve capacity available to  
6 new entrants discourages otherwise efficient investment. Although Verizon is not  
7 proposing to reserve unused fiber for its own use, the Company will implement several  
8 reasonable limitations on dark fiber to ensure that it can meet its COLR obligations as  
9 well as enable maintenance and restoration activities. First, Verizon may reserve dark  
10 fiber for maintenance/emergency restoration purposes or to satisfy customer orders for  
11 fiber related services or for future growth. Second, the Company does not allow  
12 competitors in any two-year period from leasing more than 25% of the dark fiber in a  
13 given segment of the network. Further, Verizon reserves the right to revoke leased fiber  
14 from CLECs with 12 months notice, upon establishing need to the satisfaction of the  
15 Commission, and also reserves the right to take back underused (less than OC-12) fiber.

16  
17 **H. UNE COMBINATIONS**

18 **Q. HOW DOES THE FCC'S UNE REMAND ORDER ADDRESS THE ISSUE OF**  
19 **UNE COMBINATIONS?**

20 A. The FCC UNE Remand Order,<sup>11</sup> in conjunction with the U.S. Supreme Court ruling on  
21 January 25, 1999 in *AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. 366, 393-94 (1999),

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<sup>11</sup>UNE Remand Order, ¶¶ 474-89.

1 requires ILECs to provide currently combined elements to CLECs without disassembling  
2 them. There are basically two types of combinations that are at issue here: (1) UNE-  
3 Platform (“UNE-P”) combinations and (2) Enhanced Extended Link (“EEL”)  
4 combinations.

5  
6 Due to the then-pending litigation on combinations in the Eighth Circuit Court, the FCC  
7 did not elect to define combinations as separate network elements, nor did it address  
8 whether an ILEC must combine network elements that are not already combined in the  
9 network.<sup>12</sup> However, in its opinion filed July 18, 2000, the U.S. Court of Appeals for the  
10 Eighth Circuit reaffirmed its previous decision that the FCC Rules, 47 C.F.R. § 51.315  
11 (c)-(f) remain vacated. *Iowa Utils. Bd. v. FCC*, 219 F.3d at 759. Thus, Verizon is under  
12 no obligation to combine UNE elements that are not already combined in its network.

13  
14 **Q. CLEC WITNESSES COMMONLY CITE FCC ORDERS STATING THAT**  
15 **“CURRENTLY COMBINED” MEANS “ORDINARILY COMBINED” IN THE**  
16 **NETWORK. DO YOU AGREE?**

17 A. No. If the CLECs’ improper interpretation of the rulings on this issue were true, the  
18 Eighth Circuit would have reinstated FCC Rule, 47 C.F.R. § 51.315 (c)-(f). However, the  
19 court declined to do this and, therefore, various CLECs’ interpretation of the law on this  
20 issue is incorrect. The ILECs are only obligated to provide already combined elements as  
21 a UNE combination.

22  

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<sup>12</sup>UNE Remand Order, ¶ 481.

1 **Q. WILL VERIZON COMBINE NETWORK ELEMENTS EVEN THOUGH IT IS**  
2 **NOT LEGALLY OBLIGATED TO DO SO?**

3 A. No. The Company will comply scrupulously with the requirements of the  
4 Telecommunications Act of 1996 (“the Act”) and the lawful regulations of the FCC, as  
5 determined by the courts. Complying with the Act to meet its pro-competitive goals  
6 means, however, not only offering what Congress determined competition requires, but  
7 also withholding those things that Congress determined the CLECs should do for  
8 themselves. The development of robust competition requires no less — not only making  
9 certain of our facilities available to assist the CLECs, but also encouraging them to build  
10 their own networks where ours does not immediately meet their needs. Accordingly,  
11 Verizon will make available to CLECs all required UNEs and will provide them in their  
12 combined state if they are already combined, in accordance with the Act and the FCC’s  
13 rules. Where UNEs are not combined, Verizon will not combine them for the CLECs,  
14 but will, in full accordance with the law, make them available individually for the CLECs  
15 to combine themselves.

16  
17 **Q. PLEASE FURTHER DESCRIBE THE VARIOUS CATEGORIES OF UNE**  
18 **COMBINATIONS.**

19 A. A UNE-P is a combination of a loop, local circuit switching and shared transport. It is  
20 essentially a working local service, which can be used by a CLEC to provide retail local  
21 services such as R1 or B1 service. An EEL is a combination of an unbundled loop,  
22 multiplexing as required, and interoffice dedicated transport that facilitates the  
23 “extension” of an unbundled loop beyond the central office that serves an end-use

customer - a configuration that is often found in the special access product set today. By using an EEL, the CLEC can avoid the need to collocate at every central office to gain access to the unbundled loops within each central office. As a final note, EEL combinations do not include local circuit switching.

**I. UNE-PLATFORMS**

**Q. UNDER WHAT CONDITIONS WILL VERIZON OFFER UNE-P COMBINATIONS?**

A. Verizon will offer these UNE-Ps throughout the State of Illinois with one exception. As previously stated, Verizon is not required to combine UNEs into platforms when the specific UNEs are not combined in the Company's network.

**Q. FOR WHAT UNE PLATFORMS IS VERIZON PROPOSING RATES?**

A. Based on Verizon's proposed UNE loop and port offerings, CLECs will technically have the capability to create four different platforms, which are integrated combinations of a UNE loop and a UNE port as follows:

- (1) Basic Analog Platform, which would be comprised of a 2-wire UNE loop and a basic analog line side port;
- (2) ISDN BRI Platform, which would be comprised of a 2-wire UNE loop and an ISDN BRI digital line side port;<sup>13</sup>
- (3) ISDN PRI Platform, which would be comprised of a DS-1 UNE loop and an ISDN PRI digital port; and,

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<sup>13</sup> ISDN BRI Loop Extension charges may apply.

(4) DS-1 Platform, which would be comprised of a DS-1 UNE loop and a DS-1 digital trunk side port.

**Q. WHAT PRICE STRUCTURE AND PRICE LEVELS IS VERIZON PROPOSING FOR EACH UNE PLATFORM?**

A. Verizon is not proposing specific platform rates. The ultimate MRC for a platform will equal the sum of the MRCs for the individual UNEs that are required by the CLEC to create the platform that is currently serving the end-user customer. Thus, the total MRC paid by the CLEC will include a deaveraged UNE loop MRC and a UNE port MRC. The Company's switch usage rates (end-office and tandem) and common/shared transport rates will apply, as appropriate, for all minutes-of-use generated from the platform. Likewise, Verizon's proposed rates for switch features would also apply when specific switch features are ordered as well as Verizon's proposed rates for "non-call set-up" queries to the Company's databases. Direct Attachment TD-3 contains Verizon's proposed ordering and service connection NRCs for UNE platforms.

**Q. PLEASE EXPLAIN VERIZON'S ORDERING AND PROVISIONING PROCESS FOR UNE-P.**

A. CLECs will order UNE-P from Verizon using the standard Local Service Request form. Additional information, to be provided on a data gathering form, may be required in conjunction with the more complex switch features such as CentraNet. Prior to ordering, a CLEC is not required to be collocated to purchase UNE-P since no handoff of facilities to the CLEC is necessary. A UNE-P is a standalone working service. Currently, Verizon

1 requires the CLEC to update the E911 Database records associated with end-user  
2 customers they serve via UNE-P. However, Verizon is modifying its systems and plans  
3 to be able to perform these updates for the CLEC by year-end.  
4

5 Verizon will provision UNE-P in a manner similar to how it provisions resale or its own  
6 retail services. Also, UNE-P is always provisioned as a measured service. The CLEC  
7 will be billed for local switching usage as well as shared transport. Verizon will provide  
8 local and access usage files to the CLEC so it can, in turn, bill its end-users and any  
9 IXCs.<sup>14</sup> Finally, vertical services can be added to any platform at the CLEC's option.  
10 Noting that additional charges do apply for requested vertical services.  
11

12 **Q. WILL VERIZON PROVIDE NEW COMBINATIONS OF LOOP AND**  
13 **SWITCHING?**

14 A. Verizon is not required to provide “new” combinations of unbundled elements which do  
15 not already exist. *See Iowa Utils. Bd. v. FCC*, 219 F.3d 744. Thus, Verizon will only  
16 offer UNE-Ps when the desired elements have already been combined to offer retail or  
17 resale services.

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<sup>14</sup>Verizon does not, at present, have a charge for usage files provided to the CLECs.

1        **2.        EEL COMBINATIONS**

2        **Q.        WHAT WILL VERIZON OFFER IN THE WAY OF NON-SWITCHED EEL**  
3        **COMBINATIONS?**

4        A.        Verizon will offer combinations of network elements that are already combined,  
5        including combinations of loop, multiplexing/concentrating equipment, dedicated  
6        transport and entrance facilities, if they are currently combined in Verizon's network.  
7        There are many potential combinations of loop types, multiplexing arrangements, and  
8        transport bandwidth that could be provided under an EEL arrangement. Accordingly,  
9        Verizon proposes that the rate for each EEL UNE combination be the sum of the  
10       individual loop, transport and multiplexing rates for each of the individual UNEs that  
11       make up the combination.

12  
13       **Q.        UNDER WHAT CONDITIONS CAN EXISTING SPECIAL ACCESS**  
14       **ARRANGEMENTS BE CONVERTED TO EEL COMBINATIONS?**

15       A.        The FCC issued a Supplemental Order in CC Docket No. 96-98 on November 24, 1999,<sup>15</sup>  
16       which set up a temporary constraint on the circumstances under which carriers could  
17       convert special access combinations to UNE combinations. The FCC constrained carriers  
18       from substituting entrance facilities and combinations of unbundled loops and dedicated  
19       interoffice transport network elements for the ILECs special access service. Because it  
20       was concerned that carriers that provide exchange access service would be able to  
21       arbitrage special access rates and harm universal service, the FCC allowed conversions of

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<sup>15</sup>Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, *Supplemental Order*, FCC 99-370, CC Docket No. 96-98, 15 F.C.C.R. 1760 (Nov. 24, 1999) (hereinafter "Supplemental Order").

1 special access services to UNE rates only if the carrier provides a significant amount of  
2 local exchange service on the facility.

3  
4 On June 2, 2000, the FCC issued a Supplemental Order Clarification,<sup>16</sup> in which it  
5 extended the temporary constraint and provided further definition on what constitutes a  
6 significant amount of local traffic. The FCC said that one of three circumstances must be  
7 met.<sup>17</sup> First, the requesting carrier certifies that it is the exclusive provider of an end-  
8 user's local exchange service. Under this option, collocation is required in at least one  
9 ILEC central office within the LATA, and loop-transport combinations cannot be  
10 connected to the ILEC's tariffed services.

11  
12 Second, the requesting carrier certifies that it provides local exchange and exchange  
13 access service to the end-user customer's premises and handles at least one third of the  
14 end-user customer's local traffic (percent local traffic factors are different for DS1 and  
15 higher). Collocation at a minimum of one central office within the LATA is also required  
16 under the second option. The EEL combinations must terminate to the collocation  
17 arrangement(s) and cannot be connected to the ILEC's tariffed services.

18  
19 Under the third and last criteria, the requesting carrier certifies that at least 50% of the  
20 activated channels on a circuit are used to provide local dial tone service, and at least  
21 50% of the traffic on each of these local channels is local voice traffic, and that the entire

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<sup>16</sup>Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, *Supplemental Order Clarification*, FCC No. 00-183, CC Docket No. 96-98, 15 F.C.C.R. 9587 (June 2, 2000) (hereinafter "Supplemental Order Clarification").

<sup>17</sup> See Supplemental Order Clarification, ¶ 22.

1 loop facility has at least 33% local voice traffic. Collocation is not required with option  
2 three, however the restriction on connecting loop-transport combinations to ILEC tariffed  
3 services still applies.

4  
5 The FCC also required ILECs to allow CLECs to self-certify that they are providing a  
6 significant amount of local exchange service over combinations of UNEs. ILECs are  
7 allowed to subsequently conduct limited audits by an independent third party to verify the  
8 requesting carrier's compliance with the local usage requirements.<sup>18</sup> When converting  
9 from special access rates to UNE rates, the full termination liability will apply, if  
10 applicable.

11  
12 **I. CUSTOMIZED ROUTING AND OS/DA**

13 **Q. IS VERIZON PROPOSING SPECIFIC RATES FOR CUSTOMIZED ROUTING?**

14 **A.** No. Rates for customized routing should be established on a case-by-case basis.

15  
16 By way of background, ILECs are no longer required to provide OS/DA on an unbundled  
17 basis where they offer customized routing. Verizon offers customized routing in all areas  
18 subject only to site-specific technical limitations. Verizon also is willing to offer its  
19 OS/DA services to CLECs at market-based rates. Since 1996, however, the Verizon  
20 companies have not received any requests for customized routing. Given this, Verizon  
21 does not believe the costs and prices for customized routing should be established in this  
22 proceeding.

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<sup>18</sup> See Supplemental Order Clarification, ¶ 29.

**J. PACKET SWITCHING**

**Q. IS VERIZON PROPOSING SPECIFIC RATES FOR PACKET SWITCHING?**

A. No, Verizon is not proposing rates for packet switching. The FCC, in its UNE Remand Order, held that ILECs need not unbundle packet switching. See UNE Remand Order, ¶ 306 - 13. There is one exception to this rule: an ILEC must unbundle packet switching where (1) the ILEC has placed its own digital subscriber line access multiplexer (“DSLAM”) in a remote terminal and is offering advanced services, (2) the ILEC does not permit the CLEC to collocate its DSLAM in that remote terminal, (3) Digital Loop Carrier technology is deployed, and (4) no spare copper loops are available. See UNE Remand Order, ¶ 313. Because all four of these conditions must be met, requests for unbundled packet switching by CLECs will be handled via BFR, on a case-by-case basis.

**K. SS-7 SIGNALING NETWORK & CALL RELATED DATABASES**

**Q. FOR WHAT SIGNALING NETWORK RELATED ITEMS IS VERIZON PROPOSING RATES?**

A. FCC Rule, 47 C.F.R. § 51.319(e) requires ILECs to provide access to signaling networks, call-related databases, and service management systems on an unbundled basis. Rule 51.319 further defines these elements as follows:

(a) Signaling networks include, but are not limited to, signaling links and signaling transfer points, See 47 C.F.R. § 319(e)(1)), and

(b) For purposes of switch query and database response through a signaling network, an incumbent LEC shall provide access to its call-related databases, including but not limited to, the Calling Name Database, 911 Database, E911 Database, Line Information Database, Toll Free Calling Database, Advanced Intelligent Network Databases, and downstream number portability databases by means of physical access at

1 the signaling transfer point linked to the unbundled databases. *See*  
2 § 319(e)(2)(A).  
3

4 Verizon is proposing TELRIC-based prices for access to the Verizon's SS-7 signaling  
5 network and for most all the databases enumerated by the FCC (with two exceptions).  
6 The prices and price structure for both access to the Verizon signaling network and  
7 associated database queries are set forth in Direct Attachment TD-2. Since customer  
8 requirements are highly variable, Verizon is not proposing prices for (1) access to 911  
9 and E911 databases or (2) access to the Verizon advanced intelligent network ("AIN")  
10 service creation environment and associated databases. Verizon proposes to establish  
11 these arrangements on a case-by-case basis.  
12

#### 13 **IV. DISCUSSION OF PROPOSED NRCS**

14

15 **Q. PLEASE DESCRIBE THE TYPES OF NRCS YOU ARE PROPOSING TO**  
16 **IMPLEMENT.**

17 A. As shown in Direct Attachment TD-3, Verizon is proposing two types of NRCs: an  
18 ordering charge and a service connection charge. The ordering charge, as its name  
19 suggests, reflects the costs Verizon incurs when a CLEC "places an order" for a UNE  
20 (e.g., a two-wire loop) or an activity (e.g., loop conditioning such as removing bridged  
21 taps). The service connection charge reflects the cost of "provisioning that order" or  
22 activity (e.g., the cost of sending a technician to the field to remove bridged taps).  
23

**Q. WHAT COSTS DO THESE NRCS RECOVER?**

A. The NRCs capture the costs that are caused by the CLEC's request. The Company has incurred or will incur three types of costs to facilitate the ordering and connection of services for CLECs. The first type of cost is the variable costs (principally, labor costs) that arise when workers review, process, and provision CLEC orders. The second type is the shared/fixed costs for the computers, buildings, and similar facilities devoted to fulfilling CLEC requests at Verizon's National Open Market Center ("NOMC"); and, the final type of cost are those resulting from the development of OSS to facilitate the overall ordering process.

These variable costs, shared/fixed costs, and OSS costs are all reflected in the "ordering" and "service connection" NRCs shown on Direct Attachment TD-3, pages 1 -9. As appropriate, I will further discuss in the next section some of the proposed NRCs for the specific UNEs for which I am proposing MRCs.

**Q. HOW WERE THE VARIABLE COSTS DEVELOPED?**

A. The variable costs were developed based on the time needed to process the different types of CLEC orders. Verizon witness Barbara Ellis explains in her testimony how these charges were developed by studying the different activities associated with different types of CLEC requests and by applying current labor rates. The Company has developed separate sets of NRCs that link the cost with the cost-causer; e.g., a CLEC that places an order for a simple two-wire loop will incur a lower NRC than a CLEC that places a more complicated order.

1 **Q. HOW WERE THE NATIONAL OPEN MARKET CENTER'S SHARED / FIXED**  
2 **COSTS DEVELOPED?**

3 A. The shared/fixed costs were developed based on the costs actually incurred, as described  
4 in the Verizon NRC Study. Verizon proposes to recover these costs through an  
5 additional amount included in the NRC rate assessed on every CLEC local service  
6 request ("LSR"). Specifically, whenever a CLEC places an order or initiates an activity  
7 involving the Verizon NOMCs, the CLEC's "ordering" NRC includes \$4.71 for recovery  
8 of shared/fixed NOMC costs. This amount was developed by taking the annual NOMC  
9 shared/fixed costs of \$16.35 million and dividing it by the 3.475 million average annual  
10 LSRs expected over the 2001-2005 period.

11  
12 The proposed shared/fixed amount, which is added to each "ordering" NRC, acts to  
13 spread recovery of the "fixed / shared" costs of the NOMCs over time and thus allows  
14 CLECs to pay for these fixed / shared costs in installments. If the Commission disagrees  
15 with this rate structure, then the costs must be wholly recovered through some other  
16 mechanism (e.g., a non-bypassable surcharge on all CLEC bills or all end-user bills, or a  
17 one-time charge assessed to all CLECs).

18  
19 **A. OPERATIONS SUPPORT SYSTEM COST RECOVERY**

20 **Q. PLEASE DESCRIBE THE ISSUES ASSOCIATED WITH OSS DEVELOPMENT**  
21 **COST RECOVERY.**

22 A. The Company intends in this proceeding to establish NRC additive amounts for recover  
23 of the costs incurred by Verizon to give CLECs access to operations support systems.

1 Two types of OSS costs have been identified by the Company: (1) the cost of converting  
2 the operational support systems so that the ILECs' back-office operations are accessible  
3 to the CLECs (transitional costs), and (2) the "transaction-specific costs an ILEC incurs  
4 each time a CLEC places an order (transaction-specific costs). As discussed in the direct  
5 testimony of Mr. Werner dealing with the OSS transitional costs incurred by Verizon,  
6 there have been numerous system enhancement projects that Verizon had to undertake to  
7 give CLECs the same access that Verizon had to systems used in providing service to its  
8 customers. The transaction-specific OSS costs identified by Ms. Ellis include costs  
9 associated with data processing and system maintenance.

10  
11 **Q. PLEASE DESCRIBE THE ISSUES ASSOCIATED WITH OSS DEVELOPMENT**  
12 **COST RECOVERY.**

13 A. The pricing issues relevant to the recovery of these OSS costs include: 1) determining the  
14 type of rate element that should be applied, 2) the appropriate costs and forecasted units  
15 to be used in rate development, and 3) what to do if the number of orders differs from the  
16 forecasted units used to set cost recovery. These pricing issues will be discussed below.

17  
18 **Q. WHAT GUIDELINE IS VERIZON EMPLOYING FOR THE PROPER**  
19 **RECOVERY OF OSS COSTS?**

20 A. First, ILECs such as Verizon must be compensated for the reasonable costs incurred in  
21 order to comply with the requirements of the Act to open its network. In particular, the  
22 Act provides that when a CLEC (the cost causer) orders a UNE, it must pay a fair and  
23 just price which will compensate the ILEC for its reasonable costs. This "cost-causer"

1 principle applies equally to transitional costs and transaction-specific costs. Thus the  
2 pricing issue is the appropriate quantification of the costs to be recovered and the  
3 determination of the appropriate methodology for recovery of these costs from the cost-  
4 causer (the CLEC).

5  
6 **Q. GIVEN THE BASIC PRINCIPLE DISCUSSED ABOVE, WHAT PRICE**  
7 **STRUCTURE SHOULD BE USED TO RECOVER OSS COSTS?**

8 A. Given that OSS costs should be recovered from CLECs (who are the parties with the  
9 demand for services being offered by the newly enhanced OSS), the most efficient  
10 pricing structure is one based on access to and use of those systems. Thus, it would be  
11 appropriate to establish an OSS charge based on the forecasted number of LSRs accepted  
12 by the ILEC to provision services to CLECs. It is a relatively straightforward and simple  
13 matter to take the total OSS costs and divide this by the forecasted LSRs to be generated  
14 by CLECs to arrive at the appropriate charge. While other measures of demand are  
15 possible, this simple calculation provides a reasonable estimate of the rate that would  
16 have to be charged in order for Verizon to recover its OSS costs.

17  
18 **Q. WHAT ARE THE APPROPRIATE COSTS TO BE USED IN THE**  
19 **DEVELOPMENT OF THIS NEW PER-LSR RATE?**

20 A. As discussed in Ms. Ellis' direct testimony, Verizon has incurred a total of \$56.7 million  
21 in OSS transitional costs during the years 1996-1999 (Wholesale NRC Cost Study Binder  
22 2 (\$43.466 million + \$13.269 million)). In addition, she shows that Verizon incurred  
23 \$10.6 million in OSS transactions-specific costs in 1999 (Wholesale NRC Cost Study

1 Binder 2). Ms. Ellis further demonstrates that these costs are not recovered in Verizon's  
2 wholesale recurring or non-recurring charges.

3  
4 It should be noted that OSS enhancement costs are not a function of any specific CLEC  
5 activity in Illinois, or any other state in which Verizon operates. Rather, it is a function  
6 of the overall system requirements and level of demand faced by Verizon across its  
7 former GTE serving territories. This total also does not reflect the additional costs that  
8 will be incurred from 2000 and beyond, as Verizon further modifies its systems to  
9 comply with regulatory mandates.

10  
11 **Q. ARE THESE OSS COSTS BEING RECOVERED IN VERIZON'S RETAIL**  
12 **RATES?**

13 A. These costs are not currently recovered in retail rates. CLEC supporting OSS costs did  
14 not exist until after the Act, while GTE's last rate case was in 1994.<sup>19</sup> Therefore,  
15 Verizon's retail rates were based on a revenue requirement that could not have included  
16 these OSS costs.

17  
18 **Q. PLEASE DISCUSS VERIZON'S FORECAST OF CLEC DEMAND TO BE USED**  
19 **IN THE DEVELOPMENT OF THE OSS CHARGE.**

20 A. Verizon's forecast of CLEC local service requests across the United States during the  
21 2001-2005 period is approximately 3.475 million per year. This demand estimate is  
22 subject to a fair amount of uncertainty. Both in Illinois and across the United States,

---

<sup>19</sup>GTE North Case 93-0301/94-0041 Dated 10/1//94. Eastern Illinois Telephone Corporation Case 83-0072 Dated 12/6/83.

Verizon operates in a variety of geographic areas ranging from relatively densely populated urban areas to very rural market areas. For the most part, Verizon's operations -- as compared to a typical Bell Operating Company -- are more oriented toward serving single line residential and single line business customers in the less urbanized areas of the United States. However, most CLECs have targeted the larger volume business customers such as those operating in Verizon's more urban areas, where the costs of service are lower and the expected contribution levels are higher, rather than the less urbanized areas served by Verizon. This gives rise to a substantial degree of uncertainty as to how great the realized demand for UNEs and resale services will be in the areas served by Verizon.

**Q. GIVEN THE COSTS AND DEMAND UNITS DISCUSSED ABOVE, WHAT CHARGE IS VERIZON PROPOSING FOR THE RECOVERY OF OSS TRANSITION COSTS?**

A. Verizon proposes to charge an additional \$3.27 per CLEC local service request for recovery of OSS transition costs. The calculation of this charge is straightforward and is summarized as follows:

**OSS TRANSITION COST RECOVERY CHARGE**

1	Total Recoverable OSS Transition Costs	\$56.7 million
2	Average Annual LSRs (2001-2005)	3.475 million
3	Recovery Period (2001-2005)	5 years
4	Total LSRs (2001 –2005) (Line 2 x Line 3)	17.375 million
5	OSS Cost Recovered per LSR (Line 1 / Line 4)	\$3.27

As shown above, the rate is designed to recover the \$56.7 million in OSS transition costs incurred in 1996-1999 over the 17.375 million CLEC local service requests expected over the 2001-2005 time period.

**Q. WHAT IF THE TOTAL NUMBER OF LSRS FOR THE FIVE-YEAR RECOVERY PERIOD DIFFERS FROM THE DEMAND FORECAST?**

A. Given the inherent uncertainty in demand forecasts and to ensure that Verizon recovers all of these costs, Verizon proposes that the per-LSR charge remain in place until 17.375 million orders have processed within the old GTE serving territories. The per-LSR charge could be applied beyond the five-year recovery period if demand forecasts are overstated.

**Q. DOES VERIZON PROPOSE TO RECOVER FUTURE OSS TRANSITION COSTS IN THIS PROCEEDING?**

A. No. Verizon expects to incur additional enhancement costs in the coming years as Verizon further modifies its systems to comply with regulatory mandates. These costs are not within the scope of this proceeding, but will need to be collected in the future.

**Q. WHAT CHARGE IS VERIZON PROPOSING FOR THE RECOVERY OF OSS TRANSACTION COSTS?**

A. Verizon proposes to charge an additional \$3.06 per CLEC local service request for the recovery of OSS transaction costs. This charge was developed by taking Verizon's 1999 OSS transaction costs of \$10.6 million and dividing that amount by the 3.475 million

average annual LSRs Verizon expected over the 2001-2005 period. It is appropriate to recover the annual OSS transaction costs (\$10.6 million) each year because, unlike transition costs, transaction costs will be incurred every year going forward. The 1999 cost figure is a conservative surrogate for the annual OSS transaction costs going forward. Verizon then utilizes the average annual LSRs over the 2001-2005 period in anticipation of the rapid growth in LSRs that will take place in the future.

**Q. PLEASE PROVIDE AN EXAMPLE OF THE NRCS LISTED ON DIRECT ATTACHMENT TD-3.**

A. Please refer to page 1 of Direct Attachment TD-3, which shows the ordering and service connection NRCs applicable to an initial order for one “Exchange-basic” UNE loop. The total cost of ordering this facility (using the manual method) is \$57.03 and the proposed NRC equals this cost (as stated above, without a common cost mark-up). As shown on page 14 of Direct Attachment TD-3, this cost includes the variable costs associated with this order plus a share of the NOMC fixed costs plus the proposed amounts for recovery of OSS development and transaction costs or:

<b>Variable Ordering Cost</b>	=	<b>\$ 45.99</b>
NOMC Shared/Fixed Recovery	=	\$ 4.71
OSS Transaction Cost Recovery	=	\$ 3.06
OSS Transition Cost Recovery	=	<u>\$ 3.27</u>
<b>TOTAL NRC</b>	=	<b>\$ 57.03</b>

The total service connection cost (and NRC) to provision this facility is \$50.53 which recovers the costs incurred in the provisioning of the loop. (See page 14 of Direct Attachment TD-3). This service connection NRC does not include a share of the NOMC

fixed cost, since the NOMC cost is caused by the ordering, not the connection of service, and therefore it is recovered through the ordering NRC.

**B. LOOP CONDITIONING**

**Q. WHAT NRCS DOES VERIZON PROPOSE FOR LOOP CONDITIONING?**

A. Verizon will provide loop conditioning (i.e., removal of bridged taps and load coils) when needed to allow CLECs to provide acceptable forms of xDSL-based services over the high frequency portion of the loop. The rates for loop conditioning are non-recurring charges based directly on the cost for these activities as developed by Verizon witness Barbara Ellis (Wholesale NRC Cost Study Binder 2) that was previously filed on May 19, 2000. Verizon's proposed loop conditioning rates are developed in Direct Attachment TD-3.

**Q. WILL LOOP CONDITIONING BE PROVIDED UNDER ALL CIRCUMSTANCES?**

A. No. Loop conditioning will not be provided in cases where such conditioning significantly degrades digital services or traditional voice band services. This is in accordance with FCC Rule, 47 C.F.R. §§ 51.230, 51.233, and the FCC's Line Sharing Order.<sup>20</sup>

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<sup>20</sup>Deployment of Wireline Services Offering Advanced Telecommunications Capability, *Third Report and Order*, and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, *Fourth Report and Order*, CC Docket Nos. 98-147, 96-98, , FCC No. 99-355, 14 F.C.C.R. 20912, at ¶¶ 85-86, 201-05, (December 9, 1999) (herein "Line Sharing Order").

**V. LINE SHARING**

**Q. WHAT IS LINE SHARING?**

A. Line sharing is the ability of two different service providers to offer two services over the same physical line, with each provider employing different frequencies to transport voice or data of that line. Line sharing consists of an xDSL-based service provisioned by a CLEC and the voice-band retail service provisioned by the ILEC.

The high frequency spectrum network element is the frequency range above the voice-band on a copper loop facility used to carry analog circuit-switched voice-band transmissions. Analog voice service occurs on the lower “voice-band” frequency range, at least between 300 Hertz and 3,000 Hertz, and possibly up to 3,400 Hertz depending on equipment and facilities. Some forms of xDSL, such as ADSL use a higher frequency range, generally above 20,000 Hertz, that do not interfere with voice-band transmissions.

In order to ensure that future technologies are not omitted from line sharing, no specific dividing line has been established between the low frequency channel and a high frequency channel on the loop. Therefore, CLECs are allowed to deploy any transmission technology that is presumed acceptable for shared-line deployment with analog voice service as defined in the criteria identified in the *Advanced Services Order*.<sup>21</sup>

At this point in time ADSL is the only technology deemed acceptable for Line Sharing.

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<sup>21</sup>In the Matter of Deployment of Wireline Services Offering Advanced Telecommunications Capability, First Report and Order and FNPRM, FCC No. 99-98, CC Docket No. 98-147, 14 F.C.C.R. 4761 (March 31, 1999) (herein

1 To provision line sharing, xDSL service is added to a local loop (that is being used for  
2 “traditional” voice-band retail service) by deploying special equipment at each end of the  
3 end-users local loop. Specifically, passive signal filters, or “splitters,” are installed at  
4 each end of the end-users loop to accomplish this operation. One splitter is installed at  
5 the end-users premise, and another at the central office or remote terminal. A splitter  
6 bifurcates the digital and voice-band signals concurrently traversing the local loop,  
7 directing the voice-band signals through a pair of copper wires to the Class 5 switch, and  
8 directing the digital traffic through another pair of copper wires to a DSLAM attached to  
9 the packet-switched network.

10  
11 Line Sharing requires that the voice grade POTS retail service be provided by Verizon  
12 and the dial tone must originate from a Verizon end office switch in the wire center  
13 where the line sharing arrangement is being requested. The end-user is an active retail  
14 customer of Verizon and requests the CLEC to provide xDSL service on the same line.  
15 Customer will have two separate accounts, one with Verizon and one with the CLEC.

16  
17 It must be noted that collocation is a prerequisite to line sharing. That is, the CLECs  
18 must place their own DSLAM equipment and splitters in Verizon’s central office. In  
19 addition, the CLECs must have tie cables that run from their collocation area to the  
20 Company’s main distribution frame. The applicable rates and charges for satisfying the  
21 collocation prerequisite are separate from the line sharing rates and charges proposed  
22 herein.

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23  
"Advanced Services Order").

1 **Q. WHAT NON-RECURRING AND RECURRING RATES ARE BEING**  
2 **PROPOSED?**

3 A. My Direct Attachment TD-3 provides Verizon's proposed NRCs for Line Sharing,  
4 including charges for Ordering and Service Connection activities. These NRCs are based  
5 on Verizon's direct costs and do not include any recover of Verizon's common costs. At  
6 this time, Verizon is not proposing any Line Sharing MRCs.

7  
8 **Q. PLEASE SUMMARIZE THE COSTS UNDERLYING THE LINE SHARING**  
9 **NRCS.**

10 A. The cost support associated with the various service ordering activities is provided by  
11 Ms. Ellis (Wholesale NRC Cost Study Binder 2). In addition, as discussed previously,  
12 we include \$4.71 per LSR for the recovery of National Open Market Center shared/fixed  
13 costs, \$3.06 for OSS transaction costs, and \$3.27 for OSS transition costs.

14  
15 **Q. HOW WERE THE PRICES FOR SERVICE ORDERING ACTIVITIES**  
16 **DETERMINED?**

17 A. The non-recurring charges for service ordering activities are based on the cost studies for  
18 these activities developed by Ms. Ellis, as well as the OSS costs previously discussed.  
19 Consistent with Verizon's pricing of other non-recurring charges, these rates are based on  
20 the cost of activities with no additional mark-up applied for common costs. Verizon  
21 proposes to establish separate rates for initial and subsequent service orders and for initial  
22 and additional provisioning units since there are often significant cost differences

1 between them. The Company's proposed ordering and service connection charges are  
2 developed in Direct Attachment TD-3 and are as follows:

3  
4 **Line Sharing – Non-Recurring Charges**

Service Type	Ordering		Service Connection	
	Manual	Semi-Mechanized	Initial Unit	Additional Unit
Exchange Line Sharing– Initial	\$55.01	\$40.22	\$57.00	\$54.31
Exchange Line Sharing – Subsequent	\$24.94	\$19.74	\$15.84	\$15.39

5  
6 In addition to these charges, the CLEC must be physically collocated and have tie cables  
7 that run from their collocation area to the MDF.

8  
9 **Q. HOW SHOULD THE FINAL UNBUNDLED NETWORK ELEMENT RATES,**  
10 **APPROVED BY THE COMMISSION BE IMPLEMENTED?**

11 A. The Interconnection, Resale, and Unbundling Agreements ("Interconnection  
12 Agreements") set forth the interconnection terms, conditions and prices for Verizon's  
13 local network. Under the FCC Memorandum Opinion and Order regarding merger  
14 conditions,<sup>22</sup> Verizon must offer CLECs multi-state interconnection and resale  
15 agreements containing generic terms and conditions. Verizon's position is that, once the  
16 ICC adopts final rates, then the interconnection agreements, which contain the resale

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<sup>22</sup> In re Application of GTE CORPORATION, Transferor, and BELL ATLANTIC CORPORATION, Transferee, For Centent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, (CC Docket No. 98-184, Adopted June 16, 2000), Page 49 Condition X.

discounts and UNE prices, would be modified according to the provisions in those contracts.

**VI. TARIFF ISSUES**

**Q. IF THE COMMISSION MANDATED THAT RESALE AND/OR UNBUNDLED NETWORK ELEMENTS SHOULD BE INCORPORATED IN A TARIFF, SUBMITTED FOR COMMISSION APPROVAL, RATHER THAN INCORPORATED INTO AN INTERCONNECTION AGREEMENT, WHICH IS ALSO SUBJECT TO COMMISSION APPROVAL, WHAT COURSE OF ACTION WOULD YOU RECOMMEND?**

A. First, I do not believe the Commission should require Verizon to incorporate UNE rates and terms into a tariff since these services are provided through interconnection agreements between Verizon and CLECs. Certainly, the existence of tariffed rates should not eliminate the need for an interconnection agreement. Indeed, the United States District Court in Michigan recently found that a tariff ordered by the Michigan Public Service Commission which did not require wholesale service be provided pursuant to an interconnection agreement under Section 252 of the Federal telecommunications Act of 1996 violated federal law and was unenforceable. *Verizon North Inc. v. Stand, et al., File No 5:98-CV-38* (December 6, 2000). This decision follows a federal court decision in 1999 also holding that the Oregon Commission's wholesale tariff requirement violated federal law and was preempted to the extent that the incumbent LEC was required to sell UNEs and resold services to CLECs that had not first entered into interconnection

1 agreements with the ILEC. *MCI Telecommunications Corp. v. GTE Northwest, Inc.*, 41  
2 *F. Supp. 2d 1157 (D. Ore. 1999)*. Access to UNEs [Resale] under tariff would, at a  
3 minimum, have to be preconditioned upon the existence of an interconnection agreement  
4 between the parties providing for such tariffed services. As a result, the need for a tariff is  
5 redundant.

6  
7 Nevertheless, if the Commission mandated that a tariff be filed, the "Pricing Section" of  
8 the interconnection agreement could be filed in a tariff format with the Commission and  
9 designated as a separate tariff. The tariff would be subject to the terms and conditions of  
10 the applicable interconnection agreement between the parties, and availability of the  
11 tariffed rates would be preconditioned upon the execution of an interconnection  
12 agreement. The Company anticipates filing for illustrative purposes, as a late filed  
13 Attachment to my testimony, an example of what such a tariff would look like. The  
14 Company anticipates filing this Attachment on January 31, 2001.

15  
16 **VII. SWITCHED ACCESS LRSIC STUDIES**

17  
18 **Q. WHY IS THE COMPANY SUBMITTING UPDATED SWITCHED ACCESS**  
19 **LONG-RUN SERVICE INCREMENTAL COST STUDY ("LRSIC") RESULTS IN**  
20 **THIS CASE?**

21 **A.** Pursuant to the Commission Order<sup>23</sup> the Company was directed to file updated intrastate  
22 switched access LRSIC studies with its UNE case contemplated in the Merger Order.

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<sup>23</sup> Order on Reopening dated May 16, 2000, in Consolidated Dockets 97-0601/97-0602/97-0516, and Notice of Commission Action on June 21, 2000, Granting the Request for Clarification or, in the alternative, Waiver of

1 The Company is complying with this requirement by submitting updated LRSIC studies  
2 in this case.

3  
4 **Q. HOW DID YOU ARRIVE AT THE UPDATED LRSIC RESULTS DISPLAYED IN**  
5 **DIRECT ATTACHMENT TD-5?**

6 A. Consistent with the approach discussed above for UNEs, I applied a fixed allocator to the  
7 direct costs supplied by Company witness Tucek to arrive at the LRSIC results displayed  
8 in Direct Attachment TD-5.

9  
10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 A. Yes.